**March 30, 2010**

# House Bill 540 – A *Shared Responsibility* Approach to Funding Retired Teacher Medical Insurance

**Both the House and Senate have passed House Bill 540 — It will now be submitted to the Governor for approval.**

House Bill 540 provides a long-term, sustainable method for funding medical insurance for retired teachers. It is a plan that has been developed with much study, deliberation and input from all of Kentucky's education community within the KTRS field of membership.

KTRS Board of Trustees-*fiduciary*
Jefferson County Teachers Association
Kentucky Association of School Administrators
Kentucky Association of School Superintendents
Kentucky Education Association
Kentucky Education Association-Retired
Kentucky Retired Teachers Association
Kentucky School Boards Association
Kentucky Association of Professional Educators
Universities & Community Colleges

## ***Why Is House Bill 540 Necessary?***

The state has been redirecting contributions from the KTRS Pension Fund to pay for KTRS retirees' health care since 2004 in an amount totaling approximately $562 million. The state is repaying these redirected contributions back to the Pension Fund over staggered ten-year periods with interest. This practice is a result of the fact that the KTRS Medical Insurance Fund is not sufficiently funded to meet the extraordinary increase in the costs of funding retiree health care over that same period of time.

Without the short-term solution provided by the state of redirecting contributions to fund retiree medical insurance, retirees would have seen drastic cuts in their health care benefits years ago. As such, retirees can be thankful for the short-term solution, but all parties agree that this is an unsustainable method of continuing to fund retiree health care.

For years now, the costs of providing retiree health care have overwhelmed the contributions generated by the funding provided by active teachers and matched by the state. Today these contributions generate only $48 million of the $182 million annual cost of paying for retiree health care.

The redirecting of pension contributions creates jeopardy for the financial stability of pension fund because every redirected dollar is one less dollar that KTRS can invest to pay for retiree benefits. The actuary for the KTRS Pension Fund has determined that a workable solution must be implemented over the next six years to protect the financial stability of the KTRS Pension Fund. Failure to implement that solution will result in the Pension Fund having insufficient assets to pay retired teacher annuities in the future.

***What Does HB 540 do for the Kentucky's education community?***

For ***active teachers*** who want some day to be able to retire:

- A funding method to provide that medical insurance will be available when they retire
- Average teacher will experience net takeout from a monthly paycheck of $8 a month in the first year
- Teacher contribution is matched by the school district
- Medical insurance can be the difference between having security when they retire or not having it

For ***retired teachers***:

- Retired teachers age 65 and over experience no change and are spared additional medical insurance costs that would be necessary without HB 540
- Retired teachers under age 65 are spared from paying the entire cost of their medical insurance
- Retired teachers under age 65 step in to paying Standard Medicare Part B Premium equivalent by paying 33% in 2010, 67% in 2011 and 100% in 2012 (Retirees under age 65 will pay $37/month in 2010 toward the $589/month cost of their individual policy)

For ***school districts:***

- Maintains one of the strongest teacher recruitment and retention tools available to districts
- Allows teachers to continue to retire when ready (average retirement age is 57)
- Average payroll savings to districts of $22,000 per year for each longer-tenured, higher paid teacher who retires and is replaced by a new teacher

For ***the Commonwealth***:

- Gets away from further borrowing to fund retiree medical insurance
- Commonwealth would pay the net medical insurance costs for persons under age 65 who retire on or after July 1, 2010. Currently, the Commonwealth pays for all of medical insurance costs for retirees not Medicare eligible, plus a portion of the costs of those retirees age 65 and older

For ***everyone***:

- Moves toward pre-funding medical insurance benefit under which investment income pays for approximately 70% of benefit
- Reduces unfunded liability from current $6.2 billion to $3.4 billion

***March 30 , 2010***